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Perspective

Revising Medicare's Physician Fee Schedule — Much Activity, Little Change

Paul B. Ginsburg, Ph.D., and Robert A. Berenson, M.D.

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Article

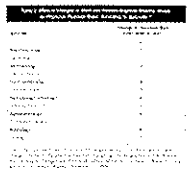
What garners attention when it comes to Medicare's payment rates for physicians is the annual drama over possible 11th-hour congressional intervention to prevent cuts under the sustainable growth rate formula. But behind the scenes, Medicare policymakers have been focusing on another aspect of the periodic adjustments: the updating of the relative values in the physician fee schedule and the accuracy of the data on which it relies. Since 1992, Medicare has paid physicians through a fee schedule according to a resource-based relative-value scale (RBRVS). This approach was intended to address distortions produced by basing payments on prevailing charges, which had resulted in relatively low payment rates for evaluation and management services, as compared with procedures and technical services, as well as in large geographic variations not explainable by cost variation. The distortions were thought to discourage physicians from practicing in primary care specialties and in rural areas and to encourage a procedurally oriented style of care.

To develop its fee schedule, Medicare sets payments for services on the basis of relative costs, as determined by estimates of physician work (time and intensity), practice expenses, and malpractice insurance expenses, with geographic adjustments to reflect cost variation. A conversion factor is used to translate this structure into dollar amounts for each service. Private insurers and Medicaid programs often base their payment rates on Medicare's relative values (using different conversion factors), so changes in Medicare's relative values can profoundly affect physicians' revenues.

Keeping the relative values current requires an effective process that reflects changes in medical practice and trends in physician productivity. But during the 15 years since this system was implemented, relative values have defied gravity — going up or staying the same but rarely coming down. For example, in 2006, the Centers for Medicare and Medicaid Services (CMS) raised physician-work values for 227 services and lowered them for only 26. As we and the Medicare Payment Advisory Commission (MedPAC) have pointed out, in a budget-constrained environment, the absence of relative-value reductions for services in which physicians' productivity has increased condemns services with unchanging physician productivity, such as evaluation and management services, to eroding payment rates.[1-3]

Moreover, problems with accurate estimation of relative values for practice expenses have worsened as physicians in some specialties have been billing for more ancillary services associated with high equipment expenses. CMS has long used unrealistically low assumptions about rates of use of equipment (20 hours per week) and unrealistically high assumptions about the interest rates for financing its purchase (11%). Furthermore, even if estimates of average costs for these services were accurate, the payment of average

specialties having more resources for studies and lobbying, as well as well-heeled industry allies.



Effect of Changes in Work and Practice-Expense Relative Values on Physician Payment Rates, According to Specialty.

The agenda for improving Medicare's methods of paying physicians needs to be broader than the development of more accurate relative values. An increasing proportion of these services is devoted to treating chronic disease, and the absence of payment for activities such as coordinating care and educating patients means that these services are likely to be underprovided. The increasing role of major equipment in medical practice argues for payment schedules that vary with service volume, with sharp increases in volume indicating a need for payment based on episodes of care or capitation. However, such ambitious approaches are probably years away. In the meantime, the RBRVS-based fee schedule, which has been on automatic pilot, needs much greater attention to ensure that its objectives are again achieved.

Dr. Ginsburg is the president of the Center for Studying Health System Change, Washington, DC, where Dr. Berenson is a senior consulting researcher. Dr. Berenson is also a senior fellow at the Urban Institute, Washington, DC.

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